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CENTRAL INTELLIGENCE AGENCY
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1951 DEFENSE AGREEMENT WITH ICELAND MAY BE IN JEOPARDY

The American minister in Reykjavik reports that negotiations with Iceland over changes in implementation of the 1951 Defense Agreement are now at a point where not only the success of these discussions but the entire agreement itself may be endangered. Because the Icelandic government feels impelled to make a public announcement before parliament adjourns on 14 April, the failure to reach an agreement may become a burning domestic political issue and further strengthen the anti-American pressures which led the government to seek certain changes in the first place.

The minister feels that Iceland must be assured that the American prime contractor is to be withdrawn as soon as feasible and that American troops and civilian laborers will be restricted in their contacts with the local population.

In response to political pressures generated by the feeling that East-West tensions have been relaxed and by a simultaneous upsurge in anti-foreign and anti-preparedness sentiment, the Conservative-Progressive government last December requested a re-negotiation of the terms of the defense agreement. These negotiations, which were carried on in Iceland all through February, have been concerned largely with the questions of reducing contacts between the more than 4,000 American troops and civilian laborers and the local population, awarding Icelanders a larger share in construction of defense facilities, and spreading this construction out to avoid unsettling effects on the Icelandic economy.

At the end of March, Iceland notified the United States that it wanted American assurances regarding agreement on the principles of the negotiations in order to make an announcement to the parliament before it adjourns on 14 April. American officials in Washington objected sharply to the draft announcement prepared by the Icelanders, particularly to the sections relating to the early withdrawal of the American prime contractor and restrictions on the movements of Americans stationed at certain radar posts.

State Dept. review completed

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On 8 April, the American minister in Reykjavik reported that the Icelanders were adamant, particularly about Iceland's future role in construction contracts. The foreign minister has cut short his tour of Scandinavia in order to make some statement to parliament which will mollify critics of the government and the defense agreement. Since the last American negotiator left Iceland on 5 March, it does not seem likely that a simple announcement that negotiations are still in progress will be considered satisfactory; but it seems impossible to reach a firm agreement between the two governments by 12 April.

Signs of weakness on this issue could cause the fall of the Icelandic government. Not only would the nationalist elements attack the government, but they would be joined by the Communists who hold seven of the 52 seats in parliament and command 16.5 percent of the popular vote. Moreover, the conclusion on 1 August 1953 of a two-year trade agreement with the USSR has weakened the emphasis formerly attached to Iceland's ties with the West.

Any successor to the present government would be presumably be committed to take a strong line and could invoke the clause in the agreement referring the matter to NATO with a view towards American evacuation. Such action requires 18 months, but in the meantime, conditions in Iceland could seriously hamper American operations there and reduce even the interim value of the American base. Prospects for the United States' obtaining additional defense facilities appear dimmer than ever.

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